Edited remarks as delivered by
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ALL VOLUNTEER FORCE CONFERENCE

Well, first of all thank you for those kind words. The kind words are I think a little bit undercut by the fact that when Bob [Soule] notes that he's here both for the food and for my speech, I know the reality is when he was offered these two things together, he asked whether it was possible just to get food to go. [Laughter] But that's a good economist kind of position and I don't reject it…

I thought I would do the opposite of my usual reaction to Bernie Rostker's talks today… [laughter] by building upon it – [laughter] -- and generating for you a suggested fourth phase of the AVF and the thinking about it.

A fourth phase, and I say it's the opposite of my normal reaction to Bernie's talk because usually far from adding another phase, my effort after Bernie speaks is to remain unfazed, but that's a different aspect… [Laughter]

And I thought, given the nature of this group, I might use as a sort of touchstone here an old joke about economists, which some of you may be familiar with, the story of someone who encounters a shepherd on the path and the shepherd has an unusually large flock. The guy bets the shepherd that he will pay $100 if he can't guess within three the number of sheep in the flock, and in return if he can guess, he gets to take one of them. And the shepherd says, "Okay, you're on." And the guy says, "366." The shepherd says, "That's amazing; there are 365 sheep in this flock and you can pick one and take it home with you."

The guy makes his selection, starts to walk away and the shepherd says, "Wait a minute; I have an idea. I'll bet you double or nothing that I can guess what you do by way of employment." The guy says, "Okay." And the shepherd says, "You're an economist; you work for a think tank." The guy says, "That's incredible. That's exactly what I do. How did you know?" And the shepherd says, "I'll explain to you once you put down my dog and give it back to me." [Laughter]

Now, the reason I tell this joke, apart from a rare opportunity to tweak such a large number of people with such impressive credentials, is because I think the tendency in discussions, particularly amongst economists, about the AVF is to think of it in statistical and analytic and counting terms and to think of it as, no surprise, essentially a problem in economics. Bernie rightly describes a phase one that relates to what is the supply curve, a phase two that talks about trying to affect that supply curve and a phase three that is a period of which, from his standpoint, there's a regrettable inattention to these laws of economics and the issues that are correlated with them.

But I think what is particularly appropriate to a conference that is talking about how to get the most out of the AVF is to also think about the cultural aspects of the transition to the AVF and all the other questions that it raises. It seems to me that the most fruitful, if you will, phase four is going to be to press those issues, some of which Bob has referred to in the course of his introduction.

Think of the Department of Defense as an organism. It's a very large and complex organism, one that is extraordinarily multifaceted. It has, I think we've all observed, a thousand legs and a somewhat rudimentary central nervous system. It has difficulties moving. But like all organisms it's an integrated whole; the knee bone is connected to the thighbone and when you change one part of it, other parts of it begin to be strained and also need to change.

Now, look what happened in the context of the all-volunteer force. People said, "We in 1972 are going to make a major change here and we recognize that it has significant implications." But the implications they look at are first-order implications, or in the language of economists, they assign a sort of partial equilibrium analysis of the problems associated with recruitment and maybe to some extent there's some intuition about retention. So the major effects are immediately discernible. Congress will raise the pay of recruits some 65 percent. We will raise the amount of money we put in advertising. In 1972, for example, the Navy spent $7.1 million on advertising. By the year 2000 we're spending $71 million on advertising; coincidentally, almost exactly ten times as much.

Everybody understands it's going to cost us more to recruit. It's some $563 per recruit in 1972 dollars to recruit men and now we're looking at prices that are almost $9,000 per recruit for the Navy.

And I think everyone sees that there are issues associated with those investments and that in due course there are consequences in terms of things like recruit quality, ASVAB (Armed Services Vocational Aptitude Battery, a test given to prospective recruits) scores, the evolution of our recruiting in terms of which portions of the population we draw from and the like.

The thing that is so striking to me, and I think so important, is that this is just the beginning of the analysis and, in fact, if you believe the knee bone is connected to the thighbone and that this is an organism, it follows that lots of other parts of the organization need to change as a consequence of the fact that your cost of labor is now dramatically different, and that you are operating on a different premise about how you bring people in. It is no longer the case that labor is in unlimited supply, you can always get more, that people are coming in for two years and then being flushed through the system. It's no longer the case that we're able to conserve resources by throwing more manpower at things; instead, manpower is a costly and precious item.

When you grasp that principle, it seems to me that a lot of things need to be questioned in the organization as a whole. But it's hard to grasp that principle and start doing the questioning. It's a little like AT&T converting from being a monopoly to being a competitor. A lot of things changed in the way it operates, from the color of telephones to the way in which you bundle services to the kinds of attitudes you need about customer service to how you do advertising, et cetera, et cetera. But it takes a

generation for that to be absorbed, and even now a generation of employees after AT&T has converted to competition, it's having difficulty shedding old monopolist kinds of characteristics. And I think the same thing is true for DOD.

A lot of this has led to my offering the proposition that we are still infected with the mentality of conscription. This has largely driven my thinking on one of the four major areas I've tried to press as Secretary of the Navy. That is to find the situations in which we're infected with the mentality of conscription and uproot them. What I am finding in the course of this is that the vein we are mining with this proposition is vastly richer than I had previously anticipated.

Ideas are coming in from all kinds of directions. For example, look first at our personnel system. What is the experience of a recruit who comes into Navy boot camp and then, if he's particularly qualified in terms of scores and boot camp performance, goes to A-school and, let's say, gets trained as a radar repairman. Well, first of all, between boot camp and A-school, he spends a certain amount of time -- maybe a week, typically -- waiting for A-school to be formed up. During that time, what does he do? He picks up litter. Then he goes to A-school, gets trained and goes out to a ship. What does he do? He's welcomed with his new specialty. He's got software skills, say, that otherwise weren't available there. We then assign him to spend his first three months painting, chipping paint, cooking.

Now, imagine if you were hired at Microsoft and told, "Congratulations, you are going to write software code for us, and during your first three months we're going to have you cook or chip paint." It's a strange use of manpower in many ways, argued for, in some respects, as a way of acculturating our people. But really, it's a throwback to a time in which we had an unlimited supply of nearly free manpower, and in which we thought that these people were relatively unskilled and, therefore, it was natural that the basic maintenance tasks would get handled in this way.

This applies not merely to our newest recruits, with the kind of training associated with A-school. It applies right on up the ladder. For example, very interestingly to me, when I came in, I began asking people, "How long does it take for us to train our pilots?" Answer: Four years. "How long should it take us?" Answer: About two years. "Why is there this disparity?" The answer is because we have not provided typically enough airplanes for them to train on. We hold people in pools for long periods of time while we await the availability of the machinery.

Well, that makes perfect sense, if people are largely free and machinery is expensive. But if people are expensive, the ratio begins to look different. A number of people over the last several years have been working this problem, and we are bringing our pilot training time down quite dramatically.

Everywhere you look, there are examples of this kind of psychology. Think about the recruiters themselves. The first time I went out to a recruiting station as Secretary of the Navy, I was talking with a recruiter, and he explained to me that there was a regulation that provided that there were .85 telephone lines per recruiter. I, richly educated by my Yale Law School training, my doctorate at Oxford, and the like, said to him, "Could you tell me that again?" What I finally realized was that this is

a throwback to the time when telephone lines were expensive and manpower was cheap and we had established a regulation that rationed the telephone lines across the people. It's obviously a bizarre way to run a recruiting command, and we changed it.

But there are more fundamental things -- rules about the use of cell phones, cars, computers -- in which we basically undercapitalized our assets. We treated the labor portion of the equation as though that was what we could be profligate with, and the other parts as less so.

Now, that proposition turns out to apply extraordinarily broadly. Go on board a ship and historically there's less automation used than there is on anybody's everyday yacht. By and large, the way in which we operate at sea skimps on automation and offers a surfeit of manpower. In fact, when you think about it, it's notable, as one captain put it to me, that even in the act of cleaning the ship, a major activity for many Sailors, we typically provide Sailors with less equipment to do the job than the typical housewife has to clean a house.

Why is that? Again, because the implicit assumption of the system is that labor is free and the supplies are expensive; no longer a sound assumption, but one which is so deeply embedded in the way in which we work, that it causes misjudgments and misallocations.

One of the things we've pushed over these last few years has been Smart Ship, as Bob refers to. When I came to the Navy as Secretary, this was largely on the shelf. We now have embedded in our program the conversion of all of our cruisers and most of our destroyers to a higher degree of automation, which will save 44 enlisted people and 4 officers on every cruiser, simply by using some common-sense kinds of automation. We are converting our ships in those kinds of ways.

Looking at it closely, we concluded that we could remove 1500 of the 3,000 people in the ship's company of a carrier. That generates enormous manpower savings, and in the end, dollar savings. It also means we put fewer souls at risk. It connects as well with a different kind of proposition. Why is it that our ships have among the lowest habitability standards in NATO? The answer, I believe, is because though we have spoken the language of people being our most precious assets, we have not lived up to the promise. In fact, our ships were designed on the premise that people were cheap, easily rotating assets who we didn't need to nourish and protect in these kinds of ways.

We've begun pushing education opportunities vastly more fiercely. We set up something called the Navy College Program. Everybody who now goes through Navy training gets college credits for their training by arrangement with the American Council on Education, and people get transcripts when they enter boot camp right away, automatically. We're going to give one and a half million college credits to people who enter boot camp this year over the course of their first terms in the Navy. Why didn't we do this sooner? The answer, in part, is that we're not focused as an institution on trying to educate our manpower and nourish it in those kinds of ways. The personnel system manifests this in a thousand other ways; the detailing system, for example, which treats people as details to be allocated according to our needs, but not in any way according to their own needs or their own desires or our need to retain them.

I could go on with this theme, but I think you see its point. Note the implications as well, though, for the acquisition system. We've talked about recruiting. We've talked about training. We've talked about the circumstances of work on ships. But why is it that we have to do all that painting and chipping again and again? Why is it that an acquisition system that can design for us missiles that can fly a thousand miles and hit a target with a CEP (Circular Error of Probability; a measure of accuracy in hitting a target) of a couple of meters can't design paint that doesn't have to constantly be repainted and rechipped? The answer is: it can -- but nobody had ever asked it to do that, because we never placed a high enough priority on that part of our system.

There lies a world of opportunity here. We know that curved surfaces are easier to maintain than flat surfaces. But we don't design ships to take advantage of that fact. We're trying to put all of this together now on our next generation of ships, DD 21, the ZUMWALT Class ships. What we've found is that we can design a ship with a crew approaching 95 people, whereas previously it had 320 people. That when we can use automation with tremendous effect, we can improve habitability at 95 people, we can move to things like staterooms for enlisted Sailors. When we create this environment, we can generate a more professional force, one with greater seniority, more education, better living conditions, and create a wholly different vision of what it is to be a Sailor in the Navy; and en route, by the way, save 70 percent of the total operating costs associated with each of these ships, which is to say a billion dollars per ship over the course of its service life. These ships will cost us $750 million each to acquire in 1996 dollars, so that every one generates its own savings sufficient to buy another one when we start to man and operate them this way.

So I come back to my beginning proposition. We have an opportunity to move to a fourth phase here, which really does grasp the opportunity associated with our move to an all-volunteer force and take account of its implications. To do that, we need to move beyond thinking about the AVF as something that changed recruiting and advertising and pay, and recognize that it changed everything -- and that we've been slow to grasp the implications of changing everything. Those implications carry within them the seeds of enormous opportunity for transformation of the organization. On top of that, it's an opportunity that is consistent with the most basic value that we've been preaching for centuries as a force, which is that people are our most important asset. But we've preached it as ideology without fully taking account of what it really implies in concrete terms.

One of my favorite propositions is a comment made about Bronson Alcott, who was the father of Louisa Mae Alcott, the author of *Little Women*, a text not often cited at IDA, but should be. It was said of Bronson Alcott, who was a poet and philosopher, that he soared into the infinite and fathomed the unfathomable, but never paid cash. [Laughter]

This proposition also might be of interest to economists, not because of the paying cash part, but because of the general idea, which is we need to take broad propositions of ideological character or of general sweeping character and translate them into the particulars of everyday life and figure out how it is that, in fact, if people are our most important asset and as a result of moving to an all-volunteer

force, we, in fact, need to do things differently than we had traditionally done them throughout the whole of the organism.

We need to change the way in which we bring people through our processes. We have to change the personnel system. We have to change the training system. We have to change our use of automation. We have to change the way we design ships. We have to change the character of what our research and development establishment is working on. We have to change the way we think about our financing of ownership costs as against acquisition costs and create for ourselves, as a result, really a whole new world.

So I applaud Bernie's backward look at his first three phases. If Bernie should be unemployed, it's great for him to go look at it. But for myself, I'd kind of like to remain employed and do it in terms of pushing this fourth phase, because I think there lies the creation of a better world.

Thank you. (Applause.)

MODERATOR: Richard has graciously agreed to stay for a few minutes for some questions and answers. I might just remark, before we get into that, that Richard's comments were, as we expected, very interesting. And I watched the audience as you were talking, and even in that very dangerous right-after-lunch hour, the only one who fell asleep was the dog in the front row. [Laughter] But he was awake during your joke about the shepherd.

SECRETARY RICHARD DANZIG: I have to tell you that I commented, the other day, when I spoke to the Marine Corps generals, that all forms of mental illness are apparent in the higher ranks of DOD. [Laughter] This was a propos my own schizophrenia about the particular issues I was talking about, but also their paranoia. But I also commented that I note in most audiences I speak to a widespread narcolepsy. [Laughter] So I appreciate what you're saying.

MODERATOR: I also enjoyed your comment about the phone lines for the recruiters. That's actually the way we treat people in OSD as well. And I think the regulation for us is .35 per analyst, but we've found ways to get around that over the years.

SECRETARY RICHARD DANZIG: Actually, our productivity increases to the degree we keep you out of circulation. [Laughter]

MODERATOR: Let me throw the floor open. I think we had a hand.

QUESTION: (Inaudible. Question regards the speed of reform within the Department.)

SECRETARY RICHARD DANZIG: I think it's three things. I think it's, first, that it's very difficult for any of us to change habits. Just think about your everyday habits. If you smoke or eat too much or lose your temper or come late or tend not to be sufficiently polite or whatever it is, and think

about how difficult it is for you to change or how difficult it is for you to get other people in your family to change.

If we accept that so readily as a human phenomenon, why do we expect an organization that consists of 372,000 human beings, the uniformed Navy, not to mention the civilians and reservists, why would we expect them to be able to change very easily and very fast? It's just a very tough thing for human beings to do that. We're creatures of the way we were brought up and of habit, and a lot of people have that kind of attitude.

The second factor is one of insight. You may change a lot more rapidly with respect to smoking when you have the benefit of various surgeon's general reports. How do you bring home these points to, for example, the institution of the Navy or the Marine Corps or any other service? I believe that the biblical proposition "The truth shall set you free" is a good one. I do believe, notwithstanding the fact that it's a slow process, that illuminating these points for people is very, very helpful.

The third is the point that you raise, which is one of incentives. How do we structure the organization to incentivize the kind of behavior I just talked about? If, for example, you run a ship and I'm out there preaching "Let people off-duty more often, automate more," but you're at a point where that automation might go awry and your head's on the line, you're going to take a cautious kind of attitude that causes you to over-staff things.

We can change those incentives. For example, one of the things that I've pressed very hard is the use of civilians in place of military. Military are very expensive to recruit. By making them more focused on classically military things, we make of them better Sailors and Marines. I set up a central account that said every military billet that you cash in for civilianization, I will fund off the top and give you back the military billet, so it will not reduce your end strength, whereas up till now the incentive has always been to keep the billets military because people want military members as a sign of power in their end strength, and no Commandant or CNO wants too low a number of uniformed people.

By doing that, we got the commandant of the Marine Corps coming forward this last year saying, "I'd like to transition 1200 of my Marines who are now doing cooking duties into things that are more productive for us." We put 1200 civilians in those jobs -- actually, fewer civilians, because you don't need as many. On the Navy side, I began asking the question: "Why don't we have civilians paint ships, when equipped with better tools and the like, while they're in port? They can do that better than the sailors can."

There was a certain amount of resistance to begin with, but when we funded it off the top, the demonstration was a wild success. We now have painted 35 ships -- more than 10 percent of our fleet -- by civilian paint teams, and that's spreading and is going to be, a well-nigh universal kind of function. So you want funding mechanisms, as your question implies, as incentive mechanisms to try and get the incentives in the right places.

I'll just tell you a little story on the side, a propos the illumination point, the second of these. It's still very difficult for people to connect the dots. For me, the great example of this was when I gave something like this pitch on board a carrier. At the end of my pitch, everybody liked it. Everybody agreed. You know, I'm Secretary of the Navy, so they're all very agreeable. [Laughter]

Afterwards, the CO of the ship walked me back to the cabin, quite luxurious, that had been arranged for me for staying overnight, and he was telling me what a really right perception this was about all this, and so on. Then, saying good night to me, he said that there'd be a petty officer across the hall if I needed anything at all during the night. I said to him, "Is this petty officer normally there, or is he there just for me?" And the CO said, "Yes." [Laughter]

Well, when we got that one disentangled, it turned out that they had quite normally assigned a petty officer to stay up all night on the chance that I would need something in the middle of the night. Well, I pointed out to him that, to my recollection, I haven't needed something from another adult in the night since I was 11 years old, but that if I really did need something, I could use the telephone and wake up the petty officer, so why didn't he send him back to sleep? But it was obvious to me that the commanding officer just didn't see that connection right after I'd done the talk. So I do place a lot of emphasis on the need to push this message again and again and again and get other people to absorb it. I think it's very hard. It takes time.

QUESTION: (Off mike. Question regards the Secretary's progress at eradicating the Navy and Marine Corps of the mentality of conscription.)

SECRETARY RICHARD DANZIG: Well, first, my sense is sure, my progress is very uneven, and there are all kinds of sources of resistance. I'm, in general, quite favorably impressed with how much resonance this has in the Navy. There are a number of admirals and generals who are ahead of me in regard to this, who are just out there pushing the edge of the envelope and basically my role is to support them. I think, for example, of Hank Giffin, who was the commander of naval surface forces for the Atlantic Fleet, or Mike Mullen, who had surface warfare responsibilities within the Navy budgeting process. These are guys who are not there because I'm persuading them. They're there because they knew this from the beginning.

On the specific issue of the two-year enlistments and the like, basically what I'm trying to press is we have more opportunities at the margin through making use of our existing system and through better retention, and I'm not inclined to move towards shorter terms in this context. It doesn't seem to me to be, when you take account of the training periods and the cost of recruitment and the like, a particularly rich investment.

QUESTION: (Off mike. Question regards recapitalization of the fleet.)

SECRETARY RICHARD DANZIG: You and I can get together on this and squeeze these people between us. But the particular observation that we can't change the capital stock right away, I

hear often. I don't entirely agree with it. It is the case that if we build seven ships a year for 10 years, we'd still only build 70 new ships, which is going to be some 20 percent of whatever our Navy might look like in 2010, and therefore 80 percent of it is still basically going to be the same.

But I think this overlooks -- and, to an amazing degree -- and I say this particularly to you, Bob -- I think the present debate about military procurement amazingly overlooks the consequences of Information Age kinds of investments. The real way for us to transform the Navy fleet isn't so much through building new ships, though I'm in favor of that and it gives us a lot of opportunities. It's through changing the character of the ones we have. Our software innovations and our broadband communication capabilities and our use of the automation technologies that exist now let us do that.

We have a phenomenal ability to change the existing institution and are doing it right before our eyes. We just need to grasp that possibility more. Once you start to do that -- I mentioned I had four main themes, and the people theme that we've talked about was the first of them. But the fourth of them, and absolutely fundamental from my end, is take advantage of the Information Age technologies.

Now, what does it mean that I've got broadband communication with a ship? It used to be I manned that ship from the standpoint of having it perform all the functions right on it. I needed dispersing clerks for accounting kinds of functions and so on. I needed a great deal of people. Any kind of medical or training support I needed, had to be on board. But now I've got the ability to rely on communications. So I can change the whole manpower equation right now for a ship that already exists. The institution can move a lot faster to accept the radical implications of these common-sense steps in the here and now. That's another topic.

QUESTION: (Off mike. Question regards requirements and capabilities of ships and submarines.)

SECRETARY RICHARD DANZIG: I think it's a good perception. I think we profited by moving from some of that requirements discussion and encouraging just the kinds of trades you talk about. I tend to talk overwhelmingly in terms of capabilities and the relationship between the performance we can deliver and the price it costs us, and keep trying to lower our cost of doing business and increase the reward for investments in terms of higher performance. In the end, this makes the Navy attractive.

For example, one of the things we're talking about is the requirement for 68 submarines or 76 submarines or a variety of kinds of numbers like that, depending on different time frames and different consequences. Well, when you think about it, it isn't simply a requirement for a platform. It's a requirement for number of days to use that platform. If, in fact, you can find maintenance techniques or forward-basing techniques that deliver that platform operationally for a higher proportion of its time, then you get high reward from having improved that proportion, and it ought to affect the so-called requirement.

So we're big on trying to find those kinds of investments and opportunities. We have, for example, figured out a way to extend submarine life from 30 to 33 years. That changes our requirement for build rate. We are looking at opportunities for forward-basing submarines in Guam. We figure we can make 3 submarines look like almost 10 submarines, when we move them forward that way. There are 100 examples like that embedded in our system. So for every request for additional funding or statement of additional requirement, I find myself wanting to weight it with some other kinds of changes internal to how we're using our assets and how we improve them.

QUESTION: (Off mike. Question regards retention efforts.)

SECRETARY RICHARD DANZIG: Emphatically, yes. I've spent a lot of time with the Bureau of Personnel people over just these issues. Square one for me has been we put tons of effort into recruitment, as against ounces into retention. Early on I began beating the drum of "Okay, we're spending $70 million on advertising to recruit people. What are we spending on advertising internally to keep people staying? What do we give their families?"

We've got all this market research information, youth attitude surveys, et cetera, on the recruiting side. What do we know about our retention problems and why we're not keeping people? We are spending extraordinary amounts of money on recruiting. We've got, ballpark, 5,000 recruiters out there in the Navy and a couple of thousand other people supporting them. How many people work on retention? Well, just to give you the last one as an example, the answer came back: four.

There's enormous reward on that side of the equation; the marginal value of those investments is much, much higher. Square one in that regard has been just what you've said. We've set up a retention center within the Navy, and we're working hard on the question of how we change the detail and assignment system so as to make it more, for enlisted people, like we have made it for officers, a development of a career path, a sense of sensitivity to where they want to go and what they want to be assigned to. That's a long process, but we're well on the road towards it.

On the issues of promotion, I'm raising some questions about "Do we want a more senior force in the Navy? Do we want to change our expectations of opportunity for growth? Could we use the warrant officer positions to achieve a measure of lateral entry in ways we haven't previously achieved?" I think there are a lot of rich issues there.

QUESTION: (Off mike.)

SECRETARY RICHARD DANZIG: It is, of course, a double-edged sword, and we're all aware of it. We're giving people a bridge to the outside. But I think the most basic position we've taken on this, as suggested by the Navy College Program I referred to earlier, the typical recruit in the Navy is going to earn a substantial number of the credits required for an AA degree in the course of his

first four years in the Navy, just in the course of his normal training with this American Council on Education accreditation system we've set up.

Our aim is to -- and we've done this -- increase the tuition support so that people can get more credits on their own, beyond what we're providing them. We're directly linking them with a vast array of schools, many of them first-tier kinds of schools. So what we're saying is we believe that by enhancing your credentialing, we are doing good things for you and that our own power to keep you will be strong enough that this is a good investment. As you rightly say, in turn we think it will also have recruitment and retention kind of spin-offs by virtue of its attractiveness.

There are risks in this from the second edge of the sword. But I believe that as we transform the Navy in the general direction I've described, movement towards more professional skills -- we're moving a lot of the distasteful labor aspects of it, not all, but a number of them -- creating more support for Sailors, giving them both tools and civilian complements and the like -- we'll be able to create an institution that can move upstream towards forces that are not as big as now, but are more senior and more experienced and where we have a workforce that is, in effect, more delighted with us.

In the end, we're going to offer some things that no civilian environment can offer -- a sense of mission, a sense of camaraderie, a sense of honor, a sense of being on the cutting edge. For all of the talk about how wonderfully dot-coms empower people, it's very remarkable, the responsibility we give very young people in the Navy, whether it's the average age on the deck of the carrier being 19 handling this incredible ballet of aircraft, or it's the phenomenon of commanding officers in their later 30s having responsibility for 300 lives on a ship and this piece of equipment that can cost a billion dollars that's theirs and no one else's.

I think, in the end, that camaraderie, that honor, that sense of responsibility, that opportunity to get out in the world, is such a strong draw that if we get the rest of the stuff right, we will be able to hold on to people.

Thank you very much. [Applause]